# Euro Bank S.A.

# Report of the Management Board on the Bank's activity

# for the year ended on 31 December 2017

**Wrocław, 13 March 2018**

eurobank

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**Introduction**

Euro Bank Spółka Akcyjna, hereinafter "Euro Bank S.A." or "the Bank", is organized in the form of a joint-stock company, and operates based on applicable provisions of the law, in particular on the provisions of the Banking Act, the Code of Commercial Companies and the Bank's Statutes.

Euro Bank S.A. is focused on servicing retail customers. Its activity is based on understanding the needs of and close relationships with Customers – according to the slogan "eurobank - every day". The Bank's offer includes a wide range of financial products and services that meet the expectations of individual Customers. The Bank provides services through a network of nearly 500 branches located across the country. Access to products and services is also offered by well-developed direct channels such as modern electronic and mobile banking as well as a telephone Customer Service Center.

The purpose of this Report of the Management Board on the Bank's activities is to provide additional relevant information supporting the Financial Statements of Euro Bank S.A. for the year ended on 31 December 2017, and additional information facilitating the assessment of the Bank.

## 1. Selected data and financial ratios of Euro Bank S.A.

**Selected financial data of Euro Bank S.A.**

| (PLN '000) | ***2017*** | ***2016**** | ***Change*** |
|---|---|---|---|
| Net profit | 102 837 | 141 982 | (27.57%) |
| Margin adjusted by cost of risk** | 623 724 | 667 692 | (6.59%) |
| Net interest income | 662 170 | 640 303 | 3.42% |
| Net commission income | 50 585 | 55 067 | (8.14%) |
| Operating expenses and depreciation | (485 134) | (487 464) | (0.48%) |
| Result on impairment losses | (121 904) | (126 722) | (3.80%) |
| C/I*** | 65.06% | 61.36% | 3.7 pps |
| ROE**** | 6.76% | 10.03% | (3.27 pps) |

**transformed data*
*** Margin adjusted for by cost of risk, understood as the result on banking operations and other operating income and expenses less impairment losses and provisions*
**** C/I = (Costs + Depreciation)/ (Net banking income + other operating income - other operating expenses)*
***** ROE = Net result / average equity level EOY*

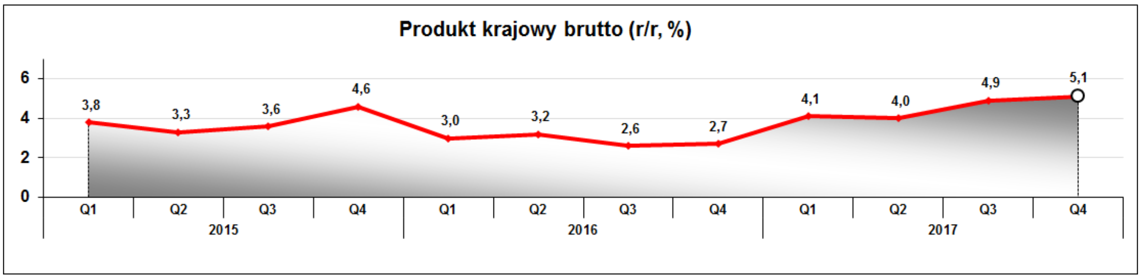
The net profit of Euro Bank S.A. for 2017 amounted to MPLN 103. In comparison to the result of 2016, which amounted to MPLN 142, account should be taken of the following key elements:

- in 2016, the financial result was influenced by one-off revenues on the settlement of the acquisition of Visa Europe Limited by Visa Inc. (MPLN 36.2),
- interest income in 2017 higher by MPLN 22 as compared to 2016, resulting mainly from the growth of the stock of loans,
- operating costs (including depreciation) in 2017 down by MPLN 2.3 as compared to 2016, resulting from an efficient cost policy, despite the increase in the banking tax cost by MPN 3.8,
- lower impairment losses on assets by MPLN 4.8 compared to 2016, resulting from an effective credit risk management policy.

## 2. Macroeconomic conditions for the banking sector in Poland in 2017

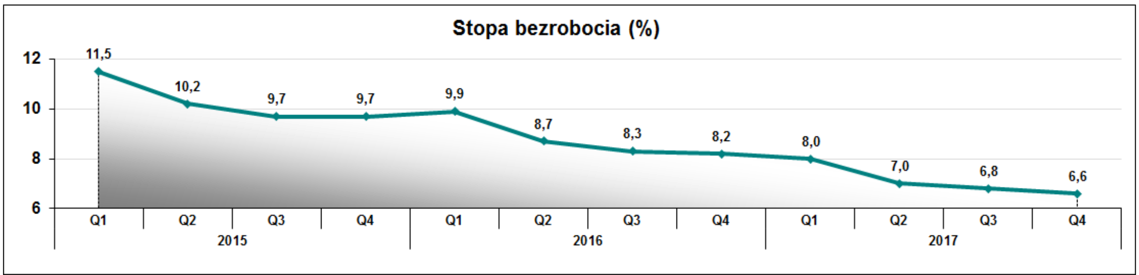
The Bank's financial results are primarily influenced by domestic economic developments and factors affecting the macroeconomic situation in the country.

In 2017, Poland recorded a clear acceleration in economic growth, showing good results in most components of the gross domestic product, including consumption (supported by the Family 500+ program).



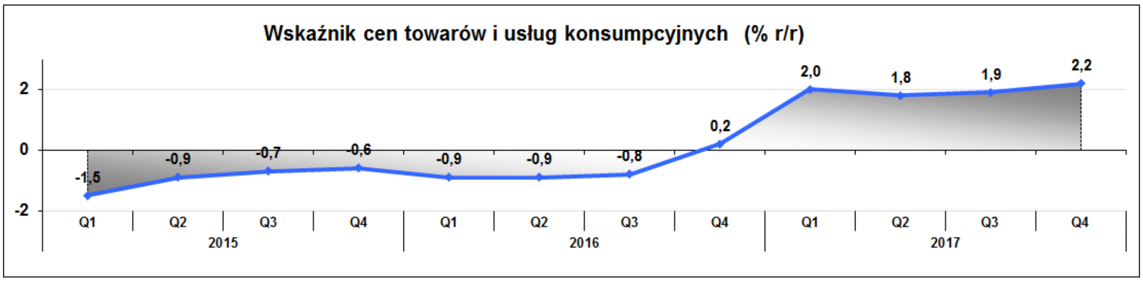

GDP in 2015-2017 (quarterly).

The unemployment rate, which at the end of 2017 was at 6.6% (as compared to 8.2% in December 2016), reached the lowest level in history, supporting economic growth and improving the economic situation of households.



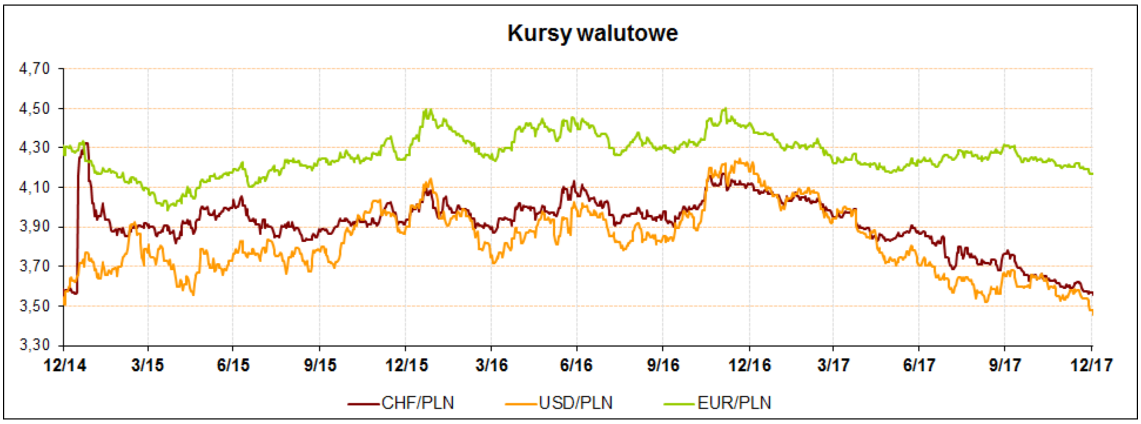

Unemployment rate in 2015-2017 (quarterly, EOP).

In 2017, the consumer goods and services price index remained within the inflation target of the National Bank of Poland.



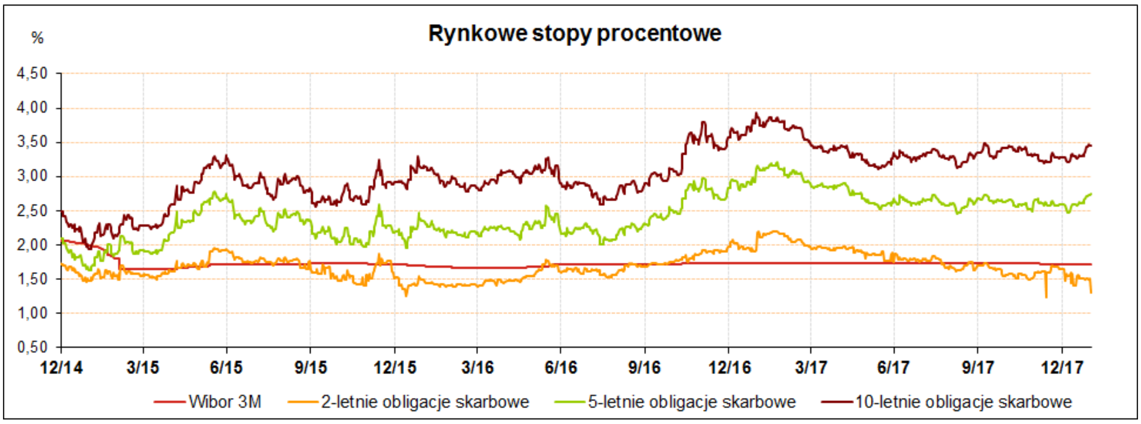

Consumer goods and services price index in 2015-2017 (quarterly).

Safe macroeconomic environment in 2017 translated into the strengthening of the Polish zloty against other currencies:




Evolution of EUR/PLN, USD/PLN and CHF/PLN exchange rates in 2015-2017.

In 2017, the Monetary Policy Council did not change interest rates, but the interest on funds held by banks within the required reserve decreased (0.50% as of 2018). The treasury bonds profitability curve slightly steepened (higher drop in profitability at the short end of the curve).




Evolution of market interest rates 2015-2017.

The environment of the record low level of interest rates did not significantly affect the level of the Bank's deposit base (although the growth rate apparently decreased, which was also visible in the data for the entire sector). This allowed taking advantage of the economic situation to maintain the growth of loans for individual Customers.

## 3. Regulatory conditions affecting the banking sector in Poland in 2017

In 2017, there have been significant changes in the regulatory environment of the banking sector in Poland. The financial and organizational situation of the Bank in this period was affected by the following legal acts:

**Acts:**

- Entry into force, on 10 January 2017, of the Act of 23 September 2016 on out-of-court settlement of consumer disputes (Journal of Laws, item 1823), defining the principles of proceedings in extrajudicial dispute settlement, the corporate obligations related to out-of-court settlement of consumer disputes and the rules for keeping a register of entities authorized to conduct proceedings in extrajudicial consumer dispute settlements (ADR entities),
- Entry into force, on 18 January 2017, of the Act of 15 December 2016 amending the Code of Civil Procedure and some other acts (Journal of Laws of 2017, item 85), which establishes the European Account Preservation Order procedure to facilitate cross-border debt recovery in civil and commercial matters,
- Entry into force, on 8 February 2017, of the Act of 30 November 2016 amending the act on payment services and some other acts (Journal of Laws, item 1997), which aims to introduce a greater choice of payment services and to facilitate the transfer of payment accounts. The new regulation introduces the obligation to offer a basic account, allowing to make basic payment transactions, the ability to transfer payment accounts, and governs the rules of operation of websites that compare bank offers,
- Entry into force, on 22 July 2017, of the Act of 23 March 2017 on mortgage loan and supervision over mortgage brokers and agents (Journal of Laws item 819), which implements the Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property. The Act establishes a legal framework that includes the rules and procedure for concluding mortgage agreements and the lenders' information obligations before concluding a mortgage agreement, and aims to ensure a high level of protection for consumers who conclude mortgage agreements,
- Entry into force, on 1 April 2017, of the Act of 15 December 2016 amending the Gambling Act and some other acts (Journal of Laws of 2017, item 88), which provides for the possibility of blocking access to illegal websites and obstructing payments to entities offering illegal gambling on the Internet. In connection with the entry into force of the Act, the Minister of Development and Finance keeps a register of domains used to offer gambling contrary to the Act, which is also accessible to banks as a payment service providers,
- Entry into force, on 1 May 2017, of the Act of 9 March 2017 on the exchange of tax information with other states (Journal of Laws, item 648), which aims to regulate the rules and procedure for exchanging tax information with other countries, define the obligations of financial institutions in the field of automatic exchange of tax information and control of their execution,
- Entry into force, on 21 June 2017, of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight (Journal of Laws item 1089, as amended), which imposes on public interest entities, including domestic banks, the obligation to establish an audit committee. The Act sets out specific requirements in terms of knowledge and competence as well as independence of audit committee members,

- Entry into force, on 1 May 2017, of the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed conditions of internal capital assessment by banks (Journal of Laws item 637).

**Regulators requirements:**

- Entry into force, on 3 January 2017, of EBA Guidelines on product oversight and governance arrangements for retail banking products,
- PFSA Resolution No. 112/2017 on recommending the adoption of EBA Guidelines on product oversight and governance arrangements for retail banking products,
- PFSA Resolution No. 141/2017 regarding the issue of Recommendation H concerning the internal control system at banks, which obliges banks to adapt to new requirements to implement its provisions by 31 December 2017,
- PFSA Resolution No. 232/2017 amending the resolution on the "Regulations of the Arbitration Court at the Polish Financial Supervision Authority",
- PFSA Resolution No. 319/2017 amending the resolution on the procedure for exercising supervision over banking activities,
- PFSA Resolution No. 493/2017 on the application of the European Banking Authority's guidelines on remuneration policies and practices related to the sale and provision of retail banking products and services,
- PFSA communication on the payment service providers' obligations under the Act of 30 November 2016 amending the act on payment services and some other acts, implementing the provisions of PAD,
- PFSA communication related to offering FX Forward transactions,
- Position of the Polish Financial Supervision Authority (UKNF) regarding the implementation of MiFID II in the scope regarding the introduction of the maximum amount of fixed remuneration for the management of an open-end investment fund and specialized open-end investment fund,
- Position of the Polish Financial Supervision Authority regarding minimum levels of capital ratios,
- Position of Polish Financial Supervision Authority on the provision of intermediation services by payment service providers for the participation in gambling games organized on the Internet in Poland for the benefit of entities illegally organizing gambling via the Internet,
- Communication of the Chairman of the Polish Financial Supervision Authority of 29 September 2017 regarding the value of the weighted rate and the value of the adjustment factor used to calculate the payment due from banks to cover the costs of supervision in 2017.

## 4. Rating

Euro Bank S.A has a credit rating awarded by the Fitch Ratings agency, which as at 31 December 2017 was as follows:

| | | |
|---|---|---|
| long term IDR | A- | stable outlook |
| short term IDR | F1 | |

| | | |
|---|---|---|
| national long term rating | AA+ (pol) | stable outlook |
| national short term rating | F1+(pol) | |
| Viability Rating | bb | |
| Support Rating | 1 | |

The above ratings were confirmed by Fitch Ratings in its communication of 16 February 2018.

## 5. Share capital and shareholding structure

In 2017, the shares of the Bank were held by 11 shareholders. The shareholders of the Bank held shares in the total number of 49 875 645 to a total nominal value of PLN 563,096,032.05. The nominal value of one shares as at 31 December 2017 amounted to PLN 11.29.

As at 31 December 2017, Societe Generale Financial Services Holding belonging to the Societe Generale Group, which held 49,869,244 shares and votes at the General Shareholders' Meeting, i.e. 99.99% of all shares and votes, was the only shareholder that held over 5% of the Bank's shares.

Reconciliation of changes in equity in 2017

| | **2016.12.31** | **Result for 2017** | **Other** | **2017 .12.31** |
|---|---|---|---|---|
| **Equity capital** | | | | |
| Share capital | 563 096 | - | - | 563 096 |
| Reserve and revaluation capital | 770 059 | - | 129 336* | 899 395 |
| Profit | 141 982 | 102 837 | **(141 982)** | 102 837 |
| **Total equity** | **1 475 137** | **102 837** | **(12 646)** | **1 565 325** |

**The amount of inflow includes dividend payment for 2016 (PLN 28.4 million).*

On 21 June 2017, an Ordinary General Meeting of Shareholders of Euro Bank S.A. was held, at which it was resolved to allocate the profit earned in 2016. By decision of the General Meeting of Shareholders, 20% of earned profit (MPLN 28.4) was allocated to dividend payment, the remaining part (MPLN 113.5) was allocated by the Bank to increase supplementary capital. The share capital of the Bank as at 31 December 2017 amounted to MPLN 563.

## 6. Statutory bodies of the Bank

**Composition of the Management Board as at 31 December 2017**

- Alexis Lacroix — President of the Management Board
- Marcin Ciszewski — Vice-President of the Management Board
- Wojciech Humiński — Vice-President of the Management Board

- Mariusz Kaczmarek — Vice-President of the Management Board
- Radosław Księżopolski — Vice-President of the Management Board

In the course of the year ended on 31 December 2017, the composition of the Management Board changed as follows:

- on 13 December 2016, Mr Yves Arrouet resigned from the function of a Management Board member, effective as of 31 January 2017,
- on 26 January 2017, Mr Krystian Kulczycki resigned from the function of a Management Board member, effective as of 26 January 2017,
- on 27 June 2017, Mr Jarosław Nowacki resigned from the function of a Management Board member, effective as of 27 June 2017,
- on 21 July 2017, the Supervisory Board, having obtained the approval of the Polish Financial Supervision Authority, appointed Mr Alexis Lacroix the President of the Management Board.

**Composition of the Supervisory Board as at 31 December 2017**

- Giovanni Luca Soma — Chairman
- Henri Bonnet — Vice-Chairman
- Dominika Bettman — SB Member
- Eric Delarue — SB Member
- Krzysztof Jajuga — SB Member
- Małgorzata Lubelska — SB Member
- Sebastian Mikosz — SB Member
- Mihai Selegean — SB Member

In the course of the year ended on 31 December 2017, the composition of the Bank's Supervisory Board changed as follows:

- on 24 January 2017, the Extraordinary General Meeting of Shareholders of Euro Bank S.A. appointed Mr Mihai Selegean to the Supervisory Board,
- on 4 October 2017, the Supervisory Board appointed Mr Henri Bonnet its Vice-Chairman,
- on 6 December 2017, Mr Didier Hauguel resigned from the function of a Supervisory Board member, effective as of 29 December 2017.

## 7. Statement of financial position and financial results

### Structure of the statement of financial position

At the end of December 2017, the balance sheet total amounted to MPLN 13,798 and was higher by 0.6% compared to the balance sheet total in 2016.

The largest item of assets as at 31 December 2017 was represented by amounts due from customers at 85% of the balance sheet total. The next item is 'financial assets held as investment', representing 10.8% of the balance sheet total, and cash and operations with the Central Bank accounting for 1.2% of total assets.

Structure of assets as at 31 December 2017 and 31 December 2016

| | **2017.12.31** | **2016.12.31** | **Growth rate** |
|---|---|---|---|
| Cash and balances with Central Bank | 163 237 | 103 286 | 58.0% |
| Amounts due from banks | 99 025 | 132 793 | (25.4%) |
| Amounts due from customers | 11 731 301 | 11 397 855 | 2.9% |
| Financial assets held as investment | 1 494 028 | 1 755 950 | (14.9%) |
| Intangible assets | 52 807 | 47 006 | 12.3% |
| Tangible fixed assets | 62 234 | 66 527 | (6.5%) |
| Deferred tax assets | 151 484 | 158 774 | (4.6%) |
| Other assets | 43 705 | 46 587 | (6.2%) |
| **Total assets** | **13 797 821** | **13 708 778** | 0.6% |

The main components of the Bank's liabilities were amounts due to customers (49% of the balance sheet total), amounts due to financial institutions (30% of the balance sheet total) and amounts due to bond issuance (5.4% of the balance sheet total).

In November 2017, the Bank received a subordinated loan from Societe Generale in the amount of MPLN 100. The consent of the Polish Financial Supervision Authority to allocate these funds to own funds (increase in Tier 2 capital) was awarded in December 2017.

On 1 December 2017, as part of the Bond Issuance Program, Euro Bank S.A. issued EBK C 01122021 series securities to the total nominal value of mPLN 250. The nominal value of one bond is kPLN 100, and the issue price equals the nominal value of the bonds. The maturity is 4 years, and the redemption date falls on 28 December 2021. The bonds have been offered under public offering. The bonds bear variable interest, payable semi-annually based on a six-month WIBOR plus a margin of 0.82 percent per annum. The bonds are not traded on the regulated market or alternative trading market. On the issue date the bonds were registered with the National Securities Depository and have the ISIN code: PLEURBK00033. The total nominal value of non-matured bonds issued by the Bank as at 31 December 2017 amounted to mPLN 740.

In December 2017, the Bank obtained funding in the form of a loan from the European Bank for Reconstruction and Development in the amount of MPLN 40 due to participation in the PolREFF program – Polish Residential Energy Efficiency Financing Facility. The funds are allocated by the Bank to loans for persons planning a renovation in order to increase the energy efficiency of a house or flat.

Structure of liabilities and equity as at 31 December 2017 and 31 December 2016

| | ***2017.12.31*** | ***2016.12.31*** | **Growth rate** |
|---|---|---|---|
| Amounts due to financial institutions | 4 130 629 | 4 379 814 | (5.7%) |
| Amounts due to customers and the public sector | 6 816 778 | 6 849 692 | (0.5%) |
| Amounts due to bond issuance | 740 659 | 490 350 | 51.0% |
| Other liabilities | 192 862 | 182 594 | 5.6% |
| Subordinated debt | 351 565 | 331 191 | 6.2% |
| Equity | 1 462 491 | 1 333 155 | 9.7% |
| Net financial result | 102 837 | 141 982 | (27.6%) |
| **Total liabilities** | **13 797 821** | **13 708 778** | 0.6% |

**Statement of comprehensive income**

The net profit of Euro Bank S.A. for 2017 amounted to MPLN 103. Compared to the result for 2016, amounting to MPLN 142, the structure of the profit and loss account was subject to the following changes.

The net banking income dropped by MPLN 17.7 (2,4%) compared to the previous year, from MPLN 741 to MPLN 735. The main factors behind this drop were:

- a drop in commission income by MPLN 7.7, resulting mainly from a lower commission for the distribution of bancassurance products,
- one-off income on the sale of Visa Europe shares in the amount of MPLN 36.2 in 2016.

Operating expenses and depreciation costs amounted to MPLN 485.1 million in 2017 and were lower than costs incurred in 2016 (MPLN 487.5) as a result of the effective policy of managing these costs by the Bank. A significant item in this group is the costs of the tax on assets, which in 2017 increased in relation to the costs of 2016 by PLN 3.8 million (MPLN 29.3 in 2017 vs. MPLN 25.5 in 2016).

The costs related to the difference in the value of provisions and revaluation of financial assets dropped by MPLN 4.8 (MPLN 121.9 in 2016, compared to MPLN 126.7 in 2017). The lower level of impairment allowances was influenced by an effective risk management policy at the Bank. The Bank also sold a portfolio of claims with recognized impairment (the impact of impairment losses on the result in the amount of MPLN 12.5).

Profit and loss account for the financial year 2017 and financial year 2016

| ***(PLN '000)*** | **2017** | **2016*** | **Growth rate** |
|---|---|---|---|
| Interest income | 866 295 | 842 802 | 2.8% |
| Interest expense | (204 125) | (202 499) | 0.8% |
| Net interest income | 662 170 | 640 303 | 3.4% |
| Commission income | 92 394 | 100 073 | (7.7%) |
| Fee and commission expense | (41 809) | (45 006) | (7.1%) |
| Net commission income | 50 585 | 55 067 | (8.1%) |
| Result on financial operations | (1 528) | 48 297 | (103.2%) |
| Foreign exchange result | 4 088 | 3 147 | 29.9% |
| Gain/loss on adjustments of the fair value in hedge accounting | 1 886 | (11 911) | (115.8%) |
| Net banking income | 717 201 | 734 903 | (2.4%) |
| Other operating income | 47 394 | 79 172 | (40.1%) |
| Other operating expense | (18 967) | (19 661) | (3.5%) |
| Operating expenditure | (448 880) | (452 291) | (0.8%) |
| Depreciation | (36 254) | (35 173) | 3.1% |
| Net provisions and revaluations | (121 904) | (126 722) | (3.8%) |
| Gross financial result | 138 590 | 180 228 | (23.1%) |
| Income tax | (35 753) | (38 246) | (6.5%) |
| **Net financial result** | **102 837** | **141 982** | **(27.6%)** |

**transformed data*

The Bank's revenue, referred to in Article 111a of the Banking Act, in 2017 amounted to mPLN 765. In 2016, the Bank's revenue amounted to MPLN 814.

| ***(PLN '000)*** | ***2017*** | ***2016**** |
|---|---|---|

| | | |
|---|---|---|
| Net interest income | 662 170 | 640 303 |
| Net commission income | 50 585 | 55 067 |
| Result on financial operations | (1 528) | 48 297 |
| Foreign exchange result | 4 088 | 3 147 |
| Gain/loss on adjustments of the fair value in hedge accounting | 1 886 | (11 911) |
| Other operating income | 47 394 | 79 172 |
| **Bank's revenue** | **764 595** | **814 075** |

**transformed data*

**Basic performance indicators**

The list of performance indicators is presented in the table below.

Basic performance indicators

| *(PLN '000)* | 2017 | 2016 |
|---|---|---|
| Capital adequacy ratio | 16.01% | 15.19% |
| ROE | 6.76% | 10.03% |
| ROA* | 0.75% | 1.04% |
| C/I | 65.06% | 61.36% |
| Non-performing loans in gross loans | 8.69% | 8.00% |

** return on assets expressed as the quotient of net profit and balance sheet total. The net profit for 2017 amounted to MPLN 102.8, and the balance sheet total amounted to BPLN 13.8.*

## 8. Capital adequacy

Under the applicable Banking Law and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR), banks are required to maintain own capital at a level appropriate to the level of risk incurred.

The capital management policy at the Bank assumes the maintenance of the required levels of capital ratios, while respecting the applicable regulations in this regard, the supervisory recommendations, the existing capital buffers and capital measures under Pillar 2.

The measurement of capital adequacy utilizes the total capital ratio, indicating the relationship between the Bank's own funds and the total amount of risk exposure.

The minimum levels of capital ratios required under CRR are:

- 4.5% with regard to Tier 1 core capital ratio,
- 6% with regard to Tier 1 capital ratio,
- 8% with regard to the total capital ratio.

The Polish Financial Supervision Authority recommends Polish banks to maintain minimum capital ratios of 9% for the Tier 1 capital ratio and 12% for the total capital ratio.

Additionally, the Polish Financial Supervision Authority imposed on the Bank the obligation to maintain capital requirements to cover the risk arising from the portfolio of foreign currency mortgage loans for households. The add-on value applicable in 2017 was at 0.36% in relation to the Tier 1 ratio and 0.48% in relation to the total capital ratio. In November 2017, PFSA updated the values of these ratios to the level of 0.4% of the total risk exposure in relation to Tier1 capital ratio and to 0.53% for total capital adequacy ratio. This recommendation is respected by the Bank as of its receipt.

From 1 January 2016, the Bank is obliged to maintain additional regulatory capital requirements for the conservation buffer. In 2017, in accordance with the "Act on macroprudential supervision over the financial system and crisis management" of 5 August, 2015, the Bank maintains an additional amount of Tier 1 capital, amounting to 1.25% of the total risk exposure. In 2018, this ratio will increase to 1.875%, and in 2019 it will reach the target level of 2.5%.

Considering the above, the minimum required level of capital ratios for the Bank as of 31 December 2017 is:

- 10.65% for the Tier 1 capital ratio,
- 13.78% for the total capital ratio.

The capital requirement of the Bank has been set in accordance with CRR, taking into account the recommendations of the Polish Financial Supervision Authority in terms of application of national options.
Bank sets capital requirements for credit risk, operational risk and currency risk, and the risk associated with credit valuation adjustment (CVA) using the standard approach. In the structure of capital requirements, the most important is the credit risk requirement.
The following table presents the evolution of capital requirements and capital ratios of the Bank as at 31 December 2017 and 31 December 2016.

Capital adequacy

| ***(PLN '000)*** | **31.12.2017** | **31.12.2016** |
|---|---|---|
| **Own funds** | **1 645 114** | **1 469 544** |
| Tier1 capital | 1 398 089 | 1 268 667 |
| Tier2 capital | 247 025 | 200 877 |
| **Total risk exposure amount** | **10 273 317** | **9 673 016** |
| Credit risk | 9 159 072 | 8 526 111 |
| Operational risk | 1 090 134 | 1 110 653 |
| Currency risk | - | - |
| CVA risk | 24 111 | 36 252 |
| **Tier1 ratio** | **13 61%** | **13 12%** |
| **Solvency ratio** | **16,01%** | **15,19%** |

The total capital adequacy ratio of the Bank calculated as at 31 December 2017 was at 16.01%, and the Tier 1 capital ratio at 13.61%.
As at 31 December 2017, the Bank meets all statutory capital requirements defined by law and the guidelines of the Polish Financial Supervision Authority regarding the level of capital adequacy.

At the same time, in December 2017, the Polish Financial Supervision Authority issued new recommendations for Polish banks regarding the required minimum capital ratios.
Minimum capital ratios as of 1 January 2018 will be at:

a. 6% + combined buffer requirement + add-on ( additional individual requirement due to foreign currency mortgage loans) in relation to Tier 1 ratio,

b. 8% + combined buffer requirement + add-on in relation to the total capital ratio.

The combined buffer requirement includes the need to maintain additional capital for:

a. conservation buffer at 1.875 % in 2018 and at 2.5% as of 2019,

b. systemic risk buffer at 3%,

c. countercyclical buffer at 0%,

d. a buffer of other systemically important institutions - the buffer applies to selected institutions recognized as particularly important for the local financial market; the buffer does not apply to Euro Bank S.A.

The above means the need for the Bank to maintain capital ratios at 11.28% in relation to Tier 1 capital ratio and 13.41% in relation to the total capital ratio as of 1 January 2018.

## 9. General information of the product offer of Euro Bank S.A. in 2017

In 2017, the Bank consistently implemented its strategy to be the first-choice retail bank for the growing group of individual Customers. The Bank focused on the development of its product offer, remote contact channels, acquisition of new Customer and building long-term relationships with Customers. Positive results in this area are due to the Bank's activities in the development of products and access channels implemented in 2017.

- The number of mobile banking users grew in 2017 by approx. 39% compared to 2016. The number of Customers using exclusively electronic banking via mobile devices (mobile only) also grew by approx. 40% compared to 2016.
- The number of Customers transferring income or remuneration to the account at the Bank has increased,
- Non-cash transactions with Bank cards grew by 21% compared to 2016,
- The number of products per active Customer also increased.

**Personal accounts**

- In May 2017, the Active and Prestige accounts offered by Euro Bank S.A. won the expert ranking of totalmoney.pl. The authors appreciated above all the attractive moneyback under the "Friends&Family" Program, as part of which Customers may get 5% money back for card spending on sports, entertainment and recreation – up to PLN 720 in total per year.
- In August 2017, the Bank presented its preferential offer of personal accounts and deposits to Customers of Volkswagen Bank Polska S.A., which, as part of its business model change, removed such products from its retail offer. The Bank provided this group of Customers a friendly and simplified account transfer method.
- Throughout 2017, the Bank promoted its offer of personal accounts, also using a number of partner actions (including various partners being leaders in their sectors, including NC+, Travel Planet or Media Expert), local and social media.
- In September 2017, the Bank conducted a nationwide TV campaign promoting the personal account with a 5% moneyback for card expenses under in the "Friends&Family" Program. Two TV spots were produced, which were broadcast, among others in the largest nationwide and thematic television channels. The marketing campaign for personal accounts has also covered the Internet (online video, YouTube, ads in financial comparison engines and search engines, e-mailing) and Bank branches (windows, posters, leaflets).

- In November 2017, as part of the consistent expansion of the offer, the Bank offered its Customers currency accounts in EUR, USD, GBP and the possibility to make transfers in these currencies (SEPA, SWIFT).

**Credit cards**

- The Bank introduced the service of splitting transactions into installments for all credit cards, including cash withdrawal transactions. The Bank also launched an active campaign in this area addressed to Customers via the Customer Service Center.
- On mid-2017 the Bank implemented phone proximity payments for credit cards - the Android Pay™ service.
- In October 2017, the Bank implemented the phone-based process to raise credit card limits.
- In November 2017, the Bank introduced to the offer a smart multi-currency card, giving the possibility of combining a debit card issued to an account kept in PLN with several currency accounts, also via online banking, both with regard to cards already issued and new Mastercard Debit and Visa Electron cards (with the proximity option).
  With the multi-currency option, Customers may use one payment card both for PLN transactions and in foreign currencies, in which their foreign currency accounts are kept. The multi-currency card provides the possibility to settle the transaction directly in the currency of payment. The multi-currency card functions may be used by Customers during trips abroad, but also for online payments for purchases on foreign websites. Card payments made abroad for sports, entertainment and recreation are covered by the 5% moneyback under the "Friends&Family" Program.

**Cash loans**

- In 2017, the Bank actively communicated its cash loan offer through several nationwide marketing campaigns and sales campaigns, thanks to which it acquired many new Customers.
- The Bank implemented a number of activities aimed at simplifying and even better matching the offer of cash loans to customer expectations. In order to shorten the formalities and waiting time for a credit decision, the loan application handling at branches has been simplified.
- In the middle of the year, the Bank introduced fast, personalized loan offers, available to the Bank's Customers via electronic channels (online and telephone banking), with the possibility of comprehensive remote sales, i.e. without the need to visit a Bank branch.
- In 2017, the Bank launched special offers dedicated to selected groups of Customers and distribution channels: the offer with various insurance packages, a special offer in the financial brokers channel, an offer for financing ecological projects – an energy-saving loan in cooperation with EBRD, and also refreshed the loan offer for selected professional groups.

**Installment loans**

- In February 2017, the Bank returned to the installment loan market, starting cooperation with one of the largest nationwide electronic home appliance retail chains, and in the following months also established cooperation with other partners offering its clients the possibility of financing purchases with installment loan.

- The Bank offers installment loans from PLN 100 up to PLN 40,000 for the period from 3 to 48 months. The product is available throughout the country in a network of selected stationary stores.

**Mortgage loans**

- The Bank ranked first in the Newsweek's Friendly Bank ranking in the Mortgage Banking category.
- In 2017, the Bank improved the profitability of mortgage loans and increased the share in sales of mortgage loans acquired through own channels.
- In H1 2017, the Bank implemented a project adjusting the product and processes to the assumptions of the Mortgage Loan Act.
- In the second half of the year, the Bank focused on optimizing and streamlining the credit process, including the creation of a Central Unit servicing all mortgage credit applications.
- The Bank actively participated in the "Mieszkanie dla Młodych" (MdM) program, adjusting the product and the process for accepting mortgage applications under MdM.

**Savings and investment products**

- The Bank carried out intensive work aimed at adapting the Bank's operations to the requirements of MiFID II, effective since January 2018.
- In May, the Bank implemented variable interest rate deposits based on the reference rate of the National Bank of Poland.
- In October, the Bank established cooperation with ProService Transfer Agent, aimed at changing the application to register orders for funds and its adaptation to the requirements of MiFID II, which was implemented in January 2018.
- Large interest among Customers, for whom Euro Bank is a first-choice bank, was raised by the Extra Zysk savings account.

**Development of remote channels and mobile services**

- In May 2017, the Bank launched a loan offer for regular customers as part of online banking, significantly simplifying the process of obtaining a loan.
- In August 2017, the Bank adapted to formal changes in the application under the "Family 500+" Program, enabling Clients to submit such applications via online banking.
- Along with the implementation of foreign currency accounts in November 2017, the Bank introduced services for these accounts via online banking (opening/viewing currency accounts, SEPA and SWIFT currency transfers) and enabled the configuration of debit cards as multi-currency ones.
- The Bank has developed the functionality of mobile applications through the addition of fingerprint logging options in the Android application (May 2017) and 3D touch support in the iOS application (May 2017).
- The Bank designed a new mobile application adapted to the latest trends.

- At the end of 2017, over 180 thousand Customers had active access to the Bank's mobile application, the number of Customers using electronic banking exclusively on mobile devices at the end of 2017 was 40,000 people.

## 10. Important prizes and awards

In 2017, the Bank was awarded in the following rankings and competitions:

- Institution of the Year 2016 - the Bank ranked third in the "Service quality via remote channels" category and third in the "Quality of service at branches" category "(MojeBankowanie.pl, 7 March 2017).
- Złoty Bankier 2017 - the Bank ranked second in the "Golden Bank" category - Highest service quality in all channels of contact with the Customer (21 April 21 2017).
- Newsweek's Friendly Bank - the Bank ranked first in the "Mortgage Banking" category (26 September 2017).
- Gold Clips 2017 - the Bank received the Bronze Clip statuette in the "Corporate Social Responsibility" category for the "Our People Round The World" campaign (1 December 2017).
- Bank Clients Satisfaction Monitor, ARC Rynek i Opinia - Bank ranked second in the "General ranking of forms of contact with the bank" (7 December 2017).

## 11. General characteristics of the Bank's loan and deposit portfolios

### Loan portfolio

The Bank's loan portfolio consists of loans to individuals, in which cash loans and housing loans have a dominant role. Changes in the portfolio structure in 2017 are presented in the table below:

Comparison of the loan portfolio structure as at 31 December 2017 and 31 December 2016.

| ***PLN '000*** | **31.12.2017** | **Share in %** | **31.12.2016** | **Share in %** |
|---|---|---|---|---|
| Mortgage loan | 6 289 552 | 53,61% | 6 397 053 | 56.1% |
| Cash loan | 5 100 078 | 43,47% | 4 832 802 | 42.4% |
| Credit card | 95 040 | 0,81% | 102 600 | 0.9% |
| Other credits and loans | 246 631 | 2,10% | 65 400 | 0.6% |
| **Total amounts due from customers** | **11 731 301** | **100,0%** | **11 397 855** | **100.0%** |

In 2017, the structure of the Bank's exposure to individual loan products remained at a level similar to that at the end of December 2016. The increase in the position of other loans and credits results from the growing exposure in the installment loan portfolio (GPV as at 31 December 2017 amounted to MPLN 178).

**Customer deposits**

The deposit base of Euro Bank S.A. is composed of deposits for individuals. The total deposit balance as at 31 December 2017 decreased slightly compared to the level as at 31 December 2016, by approx. 0,4%. The decrease concerned in particular the funds accumulated on term deposits (5.6%). Current deposits grew by 3.6%.

Comparison of the balance of deposits for individuals (without interest) as at 31 December 2017 and 31 December 2016.

| *(PLN '000)* | 2017.12.31 | 2016.12.31 | Change | Change % |
|---|---|---|---|---|
| Fixed term | 2 803 267 | 2 970 255 | (166 988) | (5.6%) |
| Current | 3 987 986 | 3 853 040 | 136 923 | 3.6% |
| **Total** | **6 791 253** | **6 823 295** | **(30 065)** | (0.4%) |

## 12. Collection activities

In the area of debt collection, an important element of the debt collection and restructuring processes was the implementation in 2017 of processes for a new product - installment loan. The Bank also continued work related to the acceleration and simplification of the settlement process, as well as made preparations for the implementation of the new IFRS 9.

In the field of debt collection activities, the year 2017 was characterized by stabilization. Global results in the area of new impaired exposures are under control.

In 2017, the Bank continued the process of transactions on the debt market.

The bank also continued the debt sale transactions in the secondary market started in 2016, acting on behalf of the creditor as the Manager of the debt portfolio.

## 13. Risk management

The risk management system at Euro Bank S.A. is based on:

- the Bank's appropriate organizational structure adjusted to the size and profile of the incurred risk and a division of roles, which ensures the independence of risk identification, measurement or estimation, assessment, control, monitoring and reporting from the operating activity giving rise to the Bank's exposure to risks,
- strategies, policies/procedures updated systematically and describing the distribution of responsibilities in line with the Bank's organizational structure, risk management process, tools supporting the risk management process, the principles governing cooperation between units as well as other rules aimed at ensuring proper operation of the risk management system implemented by the Bank,
- periodic information, acknowledged by the Management Board and passed to the Supervisory Board, which presents the types and size of risk in the Bank's operation in a reliable, clear and synthetic way.

**Credit and counterparty risks**

Credit and counterparty risk is the risk of financial loss incurred due to insolvency of borrowers or counterparties. The risk results mainly from the Customer's inability to fulfill their obligations towards the Bank, arising from deterioration in their financial position. In granting loans and developing new advanced financing methods, the Bank incurs the risk of the borrower failing to repay the loan or other liability in the agreed period.

Insolvency risk is assessed by the Bank based on application and behavioral scoring. Scoring assigned to a particular borrower / transaction allows the Bank to determine the probability of the borrower's default.

**Identification of impairment of credit exposures**

The list of default events specified by the Bank complies with the requirements of the New Capital Accord and is identical with the list of circumstances indicating impairment as defined in IAS 39 "Financial Instruments – Recognition and Measurement" as well as the provisions of the "Recommendation R" issued by the Polish Financial Supervision Authority.

The list of objective evidence (events of default) takes into consideration both quantitative and qualitative data, including:

- overdue amount over 90 days on the borrower's account,
- significant deterioration in the economic and financial position of the borrower or occurrence of other factors which constitute a threat to the repayment of receivables,
- restructuring involving the Bank entering into an arrangement with the borrower, for economic or legal reasons related to the counterparty's difficult financial position which would not be otherwise entered into; in particular, in the event of a delay over 30 days within the period prior to the restructuring,
- identification of fraud or obtaining / attempt to obtain a loan under false pretenses,
- bringing a legal action to court to obtain a writ of execution,
- expiry of the loan agreement notice period,
- disappearance of an active market for a given financial asset due to financial difficulties.
- impairment as a result of the events indicated above on another account of the borrower, the so-called "contagion".

Measurement is determined by event identification combined with the size of the credit exposure.

**Measurement of credit exposures with respect to impairment**

The Bank's principles for measuring impairment of credit exposures are based on the principles of the International Accounting Standards, the International Financial Reporting Standards and Recommendation R issued by the Polish Financial Supervision Authority.

For the purposes of measurement the entire credit portfolio was divided into the following sub-portfolios:

- individual (individual material exposures with indications of impairment),
- collective (exposures with indications of impairment, immaterial individually).

The division into homogenous groups was based on:

- product type,
- loan currency (for mortgage loans);
- LTV (for mortgage loans).

**Calculation of capital requirement due to credit risk**

The Bank applies a standard method of calculating the capital requirement due to credit risk.

**Credit risk management system components**

The credit risk management system consists of the following components:

- strategy, policies and procedures;
- credit process organization;
- credit risk assessment, scoring system;
- credit risk mitigation;
- credit risk monitoring.

**Credit risk monitoring**

The Bank's credit risk is monitored and quantified in a regular process based mainly on an efficient classification system, including appropriate procedures and tools, i.e. the rating system, the early warning system and a mechanism for identification and designation of events of default. The respective procedures are applied to both exposures classified as regular and exposures at risk subject to restructuring and collection. Additionally, the accepted collateral (its value and certainty of use) is subject to ongoing monitoring.

**Concentration risk**

he Bank distinguishes three areas in which the risk of concentration is disclosed:

- credit exposures against individuals, constituting the core business of the Bank under its statutory activities;
- exposures on financial markets, being part of the liquidity and structural risk management process, including the allocation of free financial resources and building a portfolio of liquid assets;
- to a limited extent, the concentration risk may be generated by exposures resulting from daily operating activities, being part of the own operations management process.

The Bank has defined the following limits as part of the exposure concentration management policy:

- Exposures in financial markets:
  - internal limits:
    - in relation to nominal amounts of exposures on the interbank deposit market and securities market,
    - for individual types of derivative transactions,
  - external limits based on Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms:
    - 25% of eligible capital against an individual counterparty or group of related counterparties,

- EUR 150 million in relation of a group of related counterparties, of which at least one is an institution.

Based on Regulation (EU) 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (European Market Infrastructure Regulation - EMIR), the Bank benefits from the exemption of intragroup transactions concluded with Societe Generale SA from the central clearing obligation and the obligation to exchange collaterals.

- Loan portfolio

1) The exposure limit for a single exposure / single borrower - the limit of a maximum credit exposure of a borrower is at 0.5% of the recognized capital of the Bank, which represents 1/20 of the limit of a large exposure specified in CRR,
2) Concentration limits in the portfolio are defined based on the Bank's business strategy, among other, the Financial Plan approved by the Management Board and Supervisory Board of the Bank.

**Interest rate risk**

Interest rate risk management is aimed at limiting changes to the Bank's financial result sensitive to changes in interest rates (NII) and the economic value of capital (EVC) to a level which does not constitute a threat to the Bank's security. The objective is achieved through the optimization of the structure of the balance sheet, off-balance sheet items and interest margin. In order to ensure effective interest rate risk management the Bank is supported by hedge accounting mechanisms. The Bank distinguishes two currencies that have a significant share in the structure of the balance sheet: PLN and CHF.

The assessment of the total exposure to interest rate risk in the banking portfolio is made based on the analysis of the repricing dates mismatch, basis risk and Customer's option risk.

Interest bearing items split by type of the rate as at 31 December 2017 are presented in the table below.

| | Fixed interest rate | Variable interest rate | Rate managed by the Bank | Total |
|---|---|---|---|---|
| **Interest bearing assets** | **50%** | **48%** | **2%** | **100%** |
| Non-financial sector | 42% | 45% | 2% | **89%** |
| Financial sector | 8% | 3% | 0% | **11%** |
| **Interest bearing liabilities** | **24%** | **43%** | **33%** | **100%** |
| Non-financial sector | 24% | 3% | 33% | **60%** |
| Financial sector | 0% | 40% | 0% | **40%** |

In 2017, the interest rate risk was generated mainly as a result of the increase in loans for retail customers based on a fixed interest rate. The long-term bonds purchased last year, constituting the liquidity buffer of the Bank are repriced at a variable interest rate.

A gap analysis of interest rates, understood as the difference between the value of assets (increased by extended off-balance sheet items) and liabilities (increased by received off-balance sheet items) subject to interest rate changes in the same period, is carried out based on realigned restatement dates.

The measures that illustrate the scale of the structural mismatch of revalued PLN assets and liabilities at predetermined intervals in the cross-section of the full term structure of the balance sheet are presented below. The exposure value is calculated in static terms based on the realigned gaps report covering balance sheet and off-balance sheet items sensitive to the interest rate as the ratio of said gap in a given time interval to total assets. CHF exposures have not been covered by limits due to the fact that the asset portfolio is fully covered by funding under the CHF line with the same interest rate type – CHF assets and liabilities are repriced in the period up to 3 months.

As at 31 December 2017, the above measures were as follows:

| GAP IN TOTAL ASSETS (%) | | |
|---|---|---|
| **<=1Y** | **(1Y – 5Y>*** | **>5Y** |
| -2.6% | 3.8% | 0.5% |

**average annual gap*

The Bank regularly performs stress tests designed to evaluate the potential loss in scenarios assuming extremely adverse changes in the level of interest rates (historical and hypothetical scenarios).

**Currency risk**

Currency risk is the risk of a deterioration of the financial position due to unfavorable changes in the exchange rates. This risk is generated at the Bank due to the mismatch of assets and liabilities in currencies other than PLN, resulting mainly from:

- servicing the portfolio of mortgage loans indexed in CHF, fully financed by CHF deposits from the main shareholder (the portfolio is gradually extinguished after the discontinuation of loan sales in 2009),
- foreign currency services for retail Customers, involving foreign currency accounts, deposits and cash and non-cash foreign currency settlements (in the Bank's offer since November 2017),
- foreign currency liabilities and receivables resulting from the Bank's own operations.

The Bank's FX position is managed on the basis of the intra-day limits system adopted by the Bank and the end-of--day limits for items concerning:

- four supported main currencies: EUR, USD, CHF, GBP,
- four technical and settlement currencies: SEK, CZK, NOK, DKK.

On each business day the Bank measures the exposure to currency risk by applying standard supervisory requirements involving the determination of the ratio of overall position to equity. In addition, the assessment of the exposure to foreign currency risk is supported by using the Value at Risk (VaR).

**Liquidity risk**

The Bank's liquidity is the ability to generate positive balance of cash flows within a specified time horizon. The liquidity risk is the effect of everyday activities of the Bank in line with statutory activities. Daily transactions lead to changes in the structure of the balance sheet, due dates and maturity of its components.

Liquidity risk is characterized by two basic factors:

- market liquidity risk – risks related to the situation when an item of assets cannot be liquidated in a short time without a significant impact on the price;

- funding risk – risks associated with the inability to obtain new or renew the current funding .

The objective of the Bank's liquidity policy is to ensure safe and effective structure of assets and liabilities and off-balance sheet items and prevent a crisis so that at any given time it can settle its liabilities, i.e. make payments to deponents and settle credit liabilities.

The main funding sources used by the Bank include retail deposits and long-term funds from the main shareholder, and the funding received as a result of bond issuance on the local market. In addition, the Bank raises funds from the interbank market and as part of bilateral cooperation with business partners. Liquidity reserves maintained by the Bank on an ongoing basis enable it to secure funds necessary to fulfill its payment obligations in the event of e.g. seasonal outflow of deposits or credit activity dynamics incommensurate with the increase in deposits.

In 2017, the Bank maintained the exposure to liquidity risk on a safe level, meeting the requirements of the local supervisor (supervisory liquidity measures M1 – M4), as well as respecting the provisions on new liquidity measures (LCR, NSFR).

| **Liquidity ratios** | | **2017.12.31** |
|---|---|---|
| M2 | Short-term liquidity ratio | 2.94 |
| M4 | Coverage of illiquid assets and assets of limited liquidity with own funds and stable external funds | 1.06 |
| LCR | Net outflows coverage ratio | 241% |
| NSFR | Net stable funding ratio | 123% |

**Operational risk**

Operational risk management at Euro Bank S.A. covers, among others, the following:

- identification, measurement or estimation, assessment, control (mitigation), monitoring and reporting of operational risk in individual areas of the Bank's activity,
- operational risk control mechanisms (limits),
- implementation of remedial plans to minimize this risk.

The operational risk management is based on the Operational Risk Management Strategy as approved by the Bank's Management Board and Supervisory Board. The Strategy contains, among others, the following: the definition of Operational Risk, Operational Risk management principles, the Operational Risk profile and Operational Risk tolerance. The assumptions described in the Strategy are elaborated on in operational internal documents of the Bank, including the Operational Risk Management Procedure, the Operational Losses Declaration Procedure.

Internal documents present the organization and functioning of the operational risk management process at the Bank, and the tools supporting the management of this risk at the Bank. These tools are updated and adapted to the Bank's operation on an ongoing basis, and their cross-analysis ensures an analytical assessment of the Bank's exposure to operational risk. The results of the above analyzes are presented on a quarterly basis at the meetings of the Internal Control Coordination Committee, as well as submitted to the Management Board and the Supervisory Board Audit Committee (quarterly) and to the Supervisory Board (annually) - in accordance with the documents defining the reporting area. The Bank also provides information on operational risk to external authorities in accordance with the applicable legal requirements.

## 14. Other information

In July 2014, the International Accounting Standards Board published IFRS 9, effective from 1 January 2018 and replaced the existing IAS 39 standard. IFRS 9 sets out new rules for the classification and measurement of financial instruments.

The standard indicates the following financial assets measurement methods:

- at amortized cost,
- at fair value (recognized in other comprehensive income or in the profit and loss account).

The classification of financial assets is based on:

- the results of the business model assessment in terms of financial asset management and
- characteristics of cash flows under the contract for a financial asset.

In preparation for the implementation of IFRS 9, the Bank assessed whether particular types of instruments are maintained in order to obtain contractual cash flows, as well as for sale of an asset or for other purposes.

When determining the business model, the Bank analyzed the method of actual management of its financial assets portfolios in order to implement the adopted general business objective and the future approach of the management to instruments in given portfolios.

When assessing the business model, the Bank was guided by the following criteria:

- previous experience and practice in the field of financial asset management,
- reference of management rules at the level of aggregated groups of financial assets, not individual instruments,
- current practice and planned activities regarding the sale of financial asset portfolios,
- risk and risk management in reference to the business model.

The Bank has determined whether for individual groups of financial assets it intends to realize cash flows from contractual payments over the entire life of the instrument, from its sale or from contractual payments throughout the life of the instrument, but specifying the potential future asset sale option.

Based on the above, the Bank identified the following business models in its operations:

a. "retention" – this business model provides for retaining financial assets to obtain contractual cash flows. The Bank has adopted such a business model for the amounts due from the financial sector item and for loans and credits granted to Customers. The Bank took into account the fact of selling loan portfolios in the past and the future. However, such transactions always concerned and, as intended by the Bank, will concern only impaired portfolios for which no further recoveries are expected. The Bank's aim is to achieve economic benefits from its loan portfolios throughout the life cycle of products, and a possible sale concerns portfolios, on which such benefits will no longer be obtained.

b. "retention and sale" – this business model provides for both retaining financial assets to obtain contractual cash flows as well as a sale thereof. The Bank has adopted such a business model for the portfolio of debt securities currently classified under the terms of IAS 39 to the AFS portfolio,
c. "other" – this model applies to financial assets that cannot be included either in the "retention" business model or the "retention and sale" model.

Based on business models identified in this way, the Bank carried out a balance-sheet classification of financial assets and determined their valuation models.
For the purpose of determining the characteristics of cash flows, the Bank performed a comprehensive review of contractual provisions for individual product portfolios. The Bank carried out SPPI tests (solely payments of principal and interest), taking into account the qualitative as well as quantitative factors in their interpretation. The Bank adopted the following valuation methods for significant groups of financial assets:

a. The portfolios of credits and loans granted to Customers and amounts due from banking entities were classified by the Bank to the "retention" portfolio. These assets have passed the SPPI tests positively, the Bank will measure them at amortized cost,
b. Debt securities were classified by the Bank to the "retention and sale" portfolio. The Bank will measure them at their fair value recognized in other comprehensive income,
c. Equity instruments, in particular the shares of Visa Inc., were qualified by the Bank to the "sale" portfolio. The Bank will measure them at fair value with the measurement effect recognized in the profit and loss account. The Bank will reclassify this asset from the category of assets available for sale. Accumulated profits/losses recognized so far in other comprehensive income will be recognized in the financial result under IFRS 9.

**Impact of the implementation of IFRS 9 on the classification of financial assets**

| **Financial assets** | **IAS 39** | **IFRS 9** |
|---|---|---|
| Amounts due from customers | financial assets estimated at amortized cost | financial assets estimated at amortized cost |
| Amounts due from banks and financial institutions | financial assets estimated at amortized cost | financial assets estimated at amortized cost |
| Available-for-sale financial assets_debt securities | assets measured at fair value recognized in other comprehensive income | assets measured at fair value recognized in other comprehensive income |
| Available-for-sale financial assets_equity securities | assets measured at fair value recognized in other comprehensive income | assets measured at fair value are recognized in the profit and loss account |

The implementation of IFRS 9 will not result in the need for significant reclassifications of assets between individual measurement methods. In particular, taking into account the recommendations of the Polish Financial Supervision Authority, the Bank did not reclassify any financial assets from assets measured at amortized cost to assets measured at fair value.

On the basis of the analysis of the provisions of product agreements, the Bank initially assumed that it would apply a fair value measurement model recognized in the profit and loss account in relation to the credit card portfolio. However, bearing in mind the recommendations and arguments indicated by the Polish Financial Supervision Authority, included in the letter to commercial banks of 12 December 2017, the Bank decided to apply the measurement at amortized cost. The Bank calculated the carrying amount of the above-mentioned portfolio as at 31 December 2017 according to both methodologies, and the results obtained do not indicate significant differences. The carrying amount of the credit card portfolio at amortized cost amounted to mPLN 95, and at the fair value amounted to mPLN 96.1.

At the same time, the Bank took actions aimed at changing the provisions of agreements with Customers so that they would not raise any doubts as to the application of measurement at amortized cost in relation to credit portfolios, in accordance with the requirements of IFRS 9.

IFRS 9 standard introduces significant changes in the assessment of impairment of financial assets.

Under IFRS 9, the Bank will estimate allowances for expected credit losses based on the analysis of the likelihood of occurrence of impairment within 12 months or during the life of the exposure depending on the identification of events resulting in significant increase in the level of credit risk. Estimations of the impairment estimation parameters are adjusted based on the expectations regarding the macroeconomic situation, i.e. forward looking approach.

Starting from 2018, the Bank implemented a methodology for estimating expected credit losses. In accordance with the provisions of the standard and the proposed methodology, the portfolio of receivables will be divided into 3 segments:

- Segment 1 (Stage 1): initial recognition. Financial assets for which the credit risk did not increase materially from the initial recognition and for which the allowance is determined at the level of 12-month expected credit losses,
- Segment 2 (Stage 2): receivables characterized by a premise indicating a significant increase in credit risk, for which the expected losses are calculated throughout the exposure horizon,
- Segment 3 (Stage 3): impaired receivables corresponding to the group of impaired loans are currently identified in accordance with IAS 39. The expected credit loss is estimated throughout the exposure horizon.

The methodology for estimating expected credit losses developed by the Bank includes, in particular, the modeling of PD parameters for portfolios classified according to current regulations to the non-impaired group (stage 1 and stage 2). The Bank verified the classification criteria for the group with a significant increase in credit risk, taking into account the class of delays, the value of behavioral scoring and a number of variables describing the future repayments timeliness. The key variable included in the classification is the reaching of a 30-day delay by an exposure. Additional criteria used in classification to Segment 2 are the following: quarantine after reclassification of an agreement to the non-impaired category after previous restructuring and the Customer having other agreements in Segment 2. The methodology for estimating the probability of occurrence of the impairment event uses the approximation of the future level of probability of impairment based on the cumulative default curves.

The estimates of the expected level of losses are verified with the expectations regarding the development of the macroeconomic situation quantified on the basis of scenario-based analysis using statistical models. The final adjustment for expectations regarding the macroeconomic situation is approved by the Management Board of the Bank. In the impairment calculation base, the Bank takes into account both the carrying amount of receivables and the level of unused credit lines. The Bank adopted a prudent assumption on the full use of credit lines for the purpose of estimating the allowance. The LGD level used to estimate the allowances corresponds to the LGD estimated for the purpose of estimating the allowance for impaired receivables. As in case of LGD models, PD models are covered by the model risk management process implemented at the Bank.

The implementation of IFRS 9 gave rise to an increase in the balance of allowances for non-impaired receivables as of 1 January 2018. In addition, the Bank identified portfolios as part of impairment estimation, for which adjustments were made due to the expected macroeconomic situation and uncertainty in the estimation of some parameters, the so-called forward looking approach.

The effects of the change in the method of valuation of expected credit losses as of the date of implementation of IFRS 9 will be charged to retained earnings.

The table below presents the impact of the new standard on the opening balance of 2018.

**Impact of the implementation of IFRS 9 on the opening balance of 2018**

| **Expected credit losses for Stage 1 and Stage 2 as at 1 January 2018** | **IAS 39** | **IFRS 9** | **change** |
|---|---|---|---|
| **Amounts due from banks** | **(12)** | **(3)** | **9** |
| **Amounts due from customers** | **(42 152)** | **(144 728)** | **(102 576)** |
| mortgage loans | (5 142) | (17 734) | (12 592) |
| stage 1 | | (5 276) | |
| stage 2 | | (12 458) | |
| credit cards | (359) | (1 562) | (1 203) |
| stage 1 | | (1 093) | |
| stage 2 | | (469) | |
| cash loans | (36 338) | (122 675) | (86 337) |
| stage 1 | | (80 838) | |
| stage 2 | | (41 837) | |
| other credits and loans | (313) | (2 757) | (2 444) |
| stage 1 | | (1 628 ) | |
| stage 2 | | (1 129) | |
| **Financial assets held as investment** | **-** | **(440)** | **(440)** |
| **Other assets** | **(9 400)** | **(9 756)** | **(356)** |
| **Off-balance-sheet amounts due to Customers** | **-** | **(4 512)** | **(4 512)** |
| **TOTAL** | **(51 564)** | **(159 439)** | **(107 875)** |
| **TAX** | **-** | **-** | **20 496** |
| **NET INFLOW** | **-** | **-** | **(87 379)** |

The table below presents the carrying amount of financial assets and liabilities of the Bank resulting from the implementation of IFRS 9 as at 1 January 2018.

| ***(PLN '000)*** | **IAS 39** | **IFRS 9** | **change** |
|---|---|---|---|
| Amounts due from banks | 99 025 | 99 034 | 9 |
| Amounts due from customers | 11 731 301 | 11 628 725 | (102 576) |
| Other assets | 36 490 | 36 134 | (356) |
| Provisions | 2 164 | 7 116 | 4 952 |

The value of other financial asset items presented in the financial statements as a result of the implementation of IFRS 9 has not changed. The implementation of IFRS 9 did not affect the value of financial liabilities as at 1 January 2018.

In the hedge accounting area, the Bank decided, based on the provisions of par. 7.2.21 of IFRS 9, to continue applying the hedge requirements and relationships under IAS 39.

The total value of the impact of IFRS 9 in the amount of kPLN 107,875 and the effect of deferred tax resulting from the implementation in the form of an increase in net deferred tax asset in the amount of kPLN 20,496 decreased the balance of retained earnings as at 1 January 2018. In addition, as at the date of first recognition, the Bank reclassified to the retained earnings the amount of the revaluation reserve of financial assets, for which the Bank adopted the estimation at fair value through the profit and loss account in the amount of kPLN 2,595.

For the purpose of measuring and assessing the level of capital adequacy, the Bank decided to amortize the impact of IFRS 9, in line with the possibility defined in Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. This Regulation specifies that where an institution's opening balance sheet on the day that it first applies IFRS 9 reflects a decrease in Common Equity Tier 1 capital as a result of increased expected credit loss provisions, including the loss allowance for lifetime expected credit losses for financial assets that are credit-impaired, compared to the closing balance sheet on the previous day, the institution should be allowed to include in its Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period over a duration of 5 years.

As a result of the implementation of IFRS 9 and using the capital requirements of the above transition period regulations for regulatory calculations, the Tier 1 capital ratio and the Bank's total capital ratio will not be significantly reduced.

**Impact of IFRS 9 on capital adequacy**

| ***(PLN '000)*** | **IAS 39** | **IFRS 9*** | **change** |
|---|---|---|---|
| Own funds | 1 645 114 | 1 624 758 | (20 356) |
| Tier 1 ratio | 13.61% | 13.41% | (0.20%) |
| Total capital ratio | 16.01% | 15.82% | (0.19%) |

**values estimated based on data as at 1 January 2018*

The Bank also launched preparations for the implementation of the IFRS 16 "Leases".

As of the reporting periods beginning after 1 January 2019, the new reporting standard, IFRS 16, will apply to the recognition and presentation of leases.

IFRS 16 "Leases" was issued by the International Accounting Standards Board on 13 January 2016. In accordance with IFRS 16, the lessee recognizes the right to use an asset and the liability under lease. The right to use an asset is treated as other non-financial assets and depreciated accordingly. Lease liabilities are initially measured at the current value of lease payments payable during the lease period, discounted by the rate included in the lease, if its determination is not difficult. If the rate cannot be easily determined, the

lessee applies the marginal interest rate. With regard to the classification of lease at the lessors, it is carried out in accordance with IAS 17, i.e. as operating or financial lease. The lessor classifies the lease as a financial lease if it transfers substantially all the risks and rewards on the ownership of the related assets. Otherwise, the lease is classified as an operating lease. Under a financial lease, the lessor recognizes financial income over the lease term, based on a fixed periodic rate of return on the net investment. The lessor recognizes operating lease payments in revenues on a straight-line basis or in another systematic manner, if it better reflects the pattern of obtaining benefits from the use of related assets.
In accordance with IFRS 16, a contract is of a lease nature if the lessee, in return for consideration, has the right to exercise control, including the collection of economic benefits, over the use of an identified asset for a specified period of time. A contract can be considered a lease contract if it meets the following criteria:

- the performance of the terms of the contract applies to a specific asset that is identifiable either unequivocally or implicitly, and the lessor cannot have a material conversion right,
- the contract transfers the right to control the use of an asset in return for consideration. The lessee has the right to use and to receive economic benefits from the use of this asset.

At the Bank, the regulations of the IFRS 16 standard will apply to contracts for the rental of buildings (the Bank's HQ and bank branches) and the lease of means of transport. The Bank is in the process of analyzing the above contracts and assessing the impact of IFRS 16 on the accounting principles applied.

## 15. Activity development prospects

The Bank's development prospects in 2018 and subsequent years will be significantly affected by macroeconomic conditions, in particular the economic growth, the unemployment level and interest rates. The observed low level of interest rates poses challenges for banks to maintain net interest margin and the stability of the deposit base.

The core strategic objective of the Bank is to develop long-term relationships with retail Customers while ensuring access to a wide range of daily banking products and high service standards. In the coming years, the Bank will continue its activities aimed at strengthening its business and image as a modern and friendly financial institution with a strong capital base and a safe risk profile.

Below, the Bank presents regulations that will or may have an impact on the financial or organizational situation of the Bank in 2018:

- Entry into force on 13 January 2018, of the Act of 24 November 2017 amending certain acts in order to counteract the use of the financial sector to tax fraud (Journal of Laws item 2491), providing for an obligation for banks to provide the clearing house with information on the accounts of eligible entities in order to analyze the risk of using the financial sector for tax frauds. The Act also introduces an obligation to block an account of an eligible entity at the request of the Head of the National Tax Administration.
- Entry into force of the Act of 15 December 2017 on insurance distribution, implementing Directive 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution to the Polish legal system. The purpose of the act is to ensure a high level of consumer protection in the distribution of insurance services. The Act covers all insurance intermediaries, insurance companies and reinsurance companies that directly offer and sell insurance products to Customers.
- Entry into force of the draft Act amending the Act on Trading in Financial Instruments and certain other acts, which implements Directive (EU) 2016/1034 of the European Parliament and of the Council of 23

June 2016 on markets in financial instruments (MiFID II) and Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments (MiFIR).

- Entry into force of the draft Act on personal data protection and the draft Act - provisions introducing the Act on the protection of personal data, implementing Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, the entry into force of the Act on payment services, implementing Directive (EU) 2015/2366 of the European Parliament and the Council of 25 November 2015 on payment services in the internal market.
- Entry into force of the draft Act on counteracting money laundering and terrorism financing, aimed at implementing Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.
- Entry into force of the draft Act on the national cyber security system, implementing Directive (EU) 2016/1148 of the European Parliament and of the Council of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union.
- Entry into force, on 1 July 2018, of the Act of 15 December 2017 amending the Act on tax on goods and services and certain other acts (Journal of Laws of 2018, item 62), providing for the introduction of a split payment mechanism in order to tighten the goods and services tax system. The Act also provides for amendments to the Banking Act - the obligation to open and maintain VAT accounts by banks, used to collect cash for payment corresponding to the amount of VAT paid to the supplier of goods or service provider.
- Position of the Polish Financial Supervision Authority on the application of MiFID II in Poland by 3 January 2018.
- Potential entry into force of the presidential Act amending the Act on the support of mortgage borrowers in financial difficulties, and the Act on corporate income tax, introducing, among others, the possibility of voluntary restructuring of loans denominated or indexed to currencies other than those in which borrowers earn income.
- Potential entry into force of the draft Act on transparency of public life, imposing new obligations on entrepreneurs in the field of legal protection of whistleblowers and counteracting corrupt practices.
- Potential entry into force of the draft act amending the Civil Code and some other acts, providing for the reduction of the general period of limitation of claims under the Civil Code from 10 to 6 years.
- Potential entry into force of the draft amendment of Recommendation Z on internal governance in banks, which obliges banks to implement its provisions by 30 June 2018.
- Potential entry into force of the draft amendment of Recommendation B on the reduction of the financial investment risk of banks.
- Potential entry into force of the draft assumptions of the amendment to Recommendation R on the rules of credit risk management and recognition of expected credit losses.

Considering the external conditions, the Bank's strategy in 2018-2020 will focus on the following areas:

- maintaining high quality of services,
- strengthening the acquisition of retail Customers, including through attractive product offers and further development of remote channels,
- increasing the sale of loans through appropriate shaping of the pricing policy and streamlining loan granting processes, and developing various sales channels,

- maintaining a stable capital and deposit base and diversifying sources of funding through subsequent issues of debt securities on the local capital market,
- continuing work on strengthening operational efficiency and management of the sales network.

## 16. Human resources management

For many years the Bank has been applying a consistent human resources management policy, the essential elements of which involve investing in the professional development of employees and creating a friendly work environment through the promotion of particularly talented people.

**Employment in figures**

As at the end of December 2017, the number of the Bank's employees was 2,884 compared to 2,943 at the end of 2016.

As at the end of December 2017, the Bank had 2,860 FTEs, compared to 2,918 FTEs at the end of 2016.
The average age of employees at the end of 2017 was 32.6 years compared to 32.3 years in 2016.
Women represent 70% of all employees and the average length of service at the end of 2017 was 5.3 years.
Nearly 80% of employees have higher education.

**Training and professional development**

The Bank's objective is to support building long-term relationships with employees by providing access to knowledge, development of competences and career opportunities. The Bank's employees participate in traditional and electronic training (e-learning). The majority of people trained at the Bank are participants of flexible electronic training (89% of all participants). Electronic training time represents 25% of all trainings. The total time of participation in electronic training is 4 492 working days, which is over 13 hours per employee.

In case of electronic training, the main areas of development are:

- substantive knowledge in the field of banking products and services (62%),
- areas related to operational risk, compliance rules and business ethics (24%),
- the remaining 14% are trainings in Customer service standards.

In 2017 traditional trainings at the Bank covered 9 247 participants, and the average number of training hours per employee (on a managerial or specialist position) amounted to 37.

The Bank focuses on activities that promote internal development. 80% of participants in traditional training participated in trainings carried out by teams of internal trainers. In addition, expert knowledge within individual workshop meetings is shared by employees acting as coaches of customer service, mortgage products experts and specialists in telephone customer service quality.

In 2017, the Bank held 13 465 traditional training days, among others, in the following areas:

- implementation trainings – 38%
- bank products and services – 16%
- customer service standards – 10%
- managerial – 10%

For several years, the Bank has also had in place development programs for managers and key employees:

- talent development program for 3 position levels: specialist, line manager, middle-level manager,
- managerial skills development programs,
- knowledge and expert experience sharing programs,
- a coaching skills development program for future internal coaches.

The Bank also implements individual employee development programs. Tools supporting these processes are:

- Evaluation – the annual work evaluation process, taking into account the implementation of development goals supported by the manager,
- Assessment Centre/Development Centre – involving an individual assessment of the employee's potential and preparation of a career path development plan,
- Coaching, „Start up" – individual forms of preparation of managers and support of their development in the field of improving managerial competences,
- 360 and 270 evaluation – as a tool on the basis of which Managers can plan their development.

An important aspect of development is the policy of promotion and internal promotions. When looking for an employee, the Bank first uses the possibility of acquiring them as part of internal recruitment. The Bank acquires external employees only for the lowest positions in the structure or highly specialized positions. Nearly 30% of vacancies are filled by way of internal recruitment.

In 2017, as many as 710 individuals were promoted to managerial positions or moved to a higher (requiring higher competencies) positions, of which 98 employees were promoted from a specialist to a manager.

In order to ensure effective implementation of HR policy, the Bank established the HRBP team composed of 5 experts. Their main tasks include:

- supporting individuals joining the bank and returning after long-term absences as part of the adaptation process,
- supporting managers in the field of recruitment, employee implementation, building development plans and succession,
- monitoring the development of employees and building development programs for employees with managerial potential,
- conducting activities in the field of employee retention and exit interviews,
- supporting managers in difficult employee-oriented situations, including change management.

**Dialogue with Bank employees**

The Bank monitors the level of employee satisfaction by conducting periodic surveys in this area. In 2017, 1,709 employees took part in the survey, which constituted 81% of those invited. Four values are measured (cooperation, level of innovation, responsibility, commitment). As part of the survey, employees had the opportunity to identify areas in which they notice significant improvement and those that still need improvement.

The biggest improvement was noticed in the following areas:

- improvement in processes and tasks performed by employees (24% of indications)
- customer service (17% of indications)
- managerial practices (11% of indications)

As part of the study, employees highly appreciated the atmosphere at work (77% satisfied), mutual respect (86% satisfied), openness to new ideas (80% satisfied), managers giving regular feedback (82% satisfied) and a sense of influence on the result (85%). This is also reflected in the employee referral program that is part of employer branding under the "you have that special something" model.

The Bank conducts a dialogue with employees regarding important areas, including benefits and social allowances.

In 2017, the Bank conducted a survey in which the current offer was evaluated and proposals for changes were collected. The Bank continuously improves the benefits policy, promoting a healthy, active life and meeting the expectations of employees.

In terms of the benefit policy, the Bank aims to match the offer to the needs of employees. It is also a family-friendly employer. The Company Social Benefits Fund, benefited by 1944 employees, to a large extent includes support for children and the organization of holiday rest. In the area of social benefits and other important issues related to employee matters, social dialogue is conducted with the trade union organization.

The Bank is sensitive to all kinds of unethical activities or inconsistent with the standards of cooperation, which is why for many years it allows anonymous reporting of any irregularities, including those that are illegal, such as discrimination, through a dedicated "Intervention" mailbox. The Bank also has in place an anonymous whistleblowing process.

**Recruitment and building the image of an institution as a desirable employer**

Euro Bank S.A. continued activities aimed at building the image of a desirable employer (*employer branding*). As part of these activities, the Bank:

- Participated in numerous job fairs promoting work at the Bank,
- Cooperated with universities and student organizations (carried out workshops for students in areas agreed jointly with the university authorities),
- Implemented internship programs and mentoring programs for university students,
- The Bank established a partnership agreement with universities as part of the "Business Games" educational organization and invested in co-financing meetings of practitioners organized by the communities,
- As a permanent development element, the Bank implemented the Candidate Experience tools, which will be improved and developed in next years.

For more than 40% of employees, the place of work is Wrocław, where the Bank's Head Office is located and where the Bank is a recognizable employer, actively involved in cooperation with local institutions, especially educational ones. In 2017, as part of such cooperation, the following projects were implemented:

- with the University of Economics:
  - ✓ permanent cooperation as part of the Competence Forge (Kuźnia Kompetencji) – an EU-funded project, under which the Bank accepted 29 trainees for 3-month internships in 5 different areas (including HR, process management, product development, after-sales service, accounting),
  - ✓ sponsorship of the Game for students of Strategic Management, at the end of which the Bank prepared a workshop on processes,
  - ✓ announcement of a mentoring program under which UE students will cooperate with practitioners from Euro Bank,
  - ✓ participation in the Job Fair, during which the Customer Service Center was conducting the presentation "oCOKaman – startuj w eurobanku"
- participation in Absolvent Talent Days twice – job fair addressed to local universities, where representatives of the Bank presented career opportunities in banking,
- participation in Job Fair of the praca.pl portal addressed to students and graduates of Warsaw universities,
- participation in the Job and Entrepreneurship Fairs organized by the Silesian University of Technology.

## 17. Corporate social responsibility at Euro Bank S.A.

Over recent years Euro Bank S.A. has undergone a thorough change of the business model. The Bank transformed from "consumer finance" into a retail bank. One of the key aspects of its transformation is building relationships with Customers – uncomplicated, friendly and effective. The Bank focuses on accessibility and consistently expands the range of products. In addition to the branch network, the Bank's Customers may use telephone, internet and mobile banking. The Bank also consistently extends the scope of communication with the Customer, including via social media.

The financial aspect of the Bank's operation as a commercial institution is undoubtedly very important but insufficient to ensure the organization's sustainable development in the long-term perspective. The Bank's priority is to operate based on trust and respect for ethical principles as well as openness and dialogue with all stakeholder groups: employees, customers, shareholders and local communities.

Euro Bank S.A has implemented the "Culture&Conduct" Code established by the Societe Generale Group, adopted by the Management Board of the Bank, which defines the values and commitments, and rules of conduct of persons and teams. It includes, among others, the rules of conduct for 4 groups of stakeholders: customers, employees, investors and goods and service providers.

The Bank makes every effort to ensure that the adopted Code is complied with and all actions taken by the Bank comply with it.

### Relationships with Customers

Providing Customers with the highest quality of service and security of funds entrusted by Customers is one of the priorities of conducting sustainable business, as defined in the current business strategy of the Societe Generale Group and Euro Bank S.A.. The Bank's goal is to offer products and services that are tailored to the needs and risk profile of Customers. When designing new products or modifying existing ones, the Bank verifies whether a given product corresponds to the real need of the Customers to whom it is addressed. This verification is carried out as part of the formalized New Products Implementation Process. When a Customer applies for a given product, the Bank makes sure that he/she does not act under the influence of third parties and fully understands what he/she is applying for. The Bank implements this approach through appropriate training of sales employees and keeps this commitment through a fair and quick complaint handling process.

The Bank communicates with Customers in a simple and transparent way, trying to use a language understandable to the Customer. The Bank takes care of this through regular Mystery Shopper campaigns at branches and quality controls at the Customer Service Center. In 2017, the Bank also improved written communication with Customers as part of the complaint handling process.

The Bank provides its Customers with multi-channel access to products and services so that they can use them in a convenient way.

The Bank also implemented the possibility to submit applications under the "Family 500+" Program via online banking. It is the Bank's response to the growing needs of Polish families and a perfect example of the positive role of the entire banking sector in the digitization of Polish offices.

**Natural environment**

The Bank pays attention to issues related to the protection of the natural environment.

The Bank minimizes its impact on the environment through rational materials management, reducing water, energy and fuel consumption, introducing pro-environmental solutions in its operations.

The Bank's pro-ecological approach is also reflected in the area of the car fleet. All company cars comply with the Euro5 emission standard. The bank also uses environmentally friendly cars with an LPG system.

**Social issues**

One of the basic principles of the "Culture&Conduct" Code adopted from the Societe Generale Group, which we follow in the conduct and development of our business, it the respect for fundamental human and social rights and respect for the natural environment. Both inside the Bank and in relations with external entities, we maintain relationships based on trust and mutual respect. We also care about compliance with the principles of transparency and reliability of information provided not only to our Customers, the financial community, investors, supervisors, suppliers and service providers, but also to the public. Our employees, who are the most important assets of our company, are encouraged to actively participate in social campaigns implemented by the Bank. We are engaged, among others, to protect and improve the quality of the natural environment and help those in need, providing support to foundations.

In 2017, the Bank implemented the following social campaigns:

***"Our People Round The World"*** - as part of the campaign, the employees of Euro Bank S.A., by covering distance, collected money to realize the dreams of sick children supported by the "Mam Marzenie" Foundation.
The first edition of the campaign, implemented from 1 to 30 June 2017, involved 505 employees of Euro Bank S.A. (i.e. 17.5% of all employed individuals). The goal was to cover the length of the equator (40,075 km) in four weeks, practicing any discipline related to covering the distance. The employees of Euro Bank S.A. jointly covered the distance of 55,412 km. In accordance with the adopted principle, this translated into the Bank's transfer of PLN 55,412 to the account of the "Mam Marzenie" Foundation. As part of the campaign, the employees also got involved in voluntary work to help realize the dreams of the Foundation's children.
The campaign was appreciated by experts from the public relations industry. The campaign was recognized as one of the three best CSR campaigns in Poland in 2017. Such decision was taken by the jury of the prestigious "Złote Spinacze" [Gold Clips] competition, awarding Euro Bank S.A. the Bronze Clip. Information about the campaign is available at www.ourpeople.pl.

Our People Round The World in figures:

- 55,412 km - distance covered by employees,
- 505 - number of employees who joined the competition in an external distance-measuring application,
- 110 km - average distance covered by one participant,
- 3 000 000 - number of calories burned,
- 55,412 zł - amount transferred to the "Mam Marzenie" Foundation for making the dreams of sick children come true.

***#BezSmogu*** - the Bank's campaign focused on improving air quality in Poland and drawing attention to the problem of smog. As part of the campaign, the Bank engaged in the development of a nationwide network of smog sensors. In 50 branches, Euro Bank S.A. installed sensors measuring the level of PM2.5 and PM10 suspended particulates. The aim of the initiative was to expand the database on air quality in individual regions of Poland. Selected Bank branches are located in places struggling with high smog concentrations. The current air quality can be tracked on at https://map.airly.eu/pl/ or in the Airly application. The Bank allocated kPLN 118.8 net for the purchase and 2-year maintenance of the smog sensors.
In addition, the Bank has prepared a special loan offer for people planning renovations to improve the energy efficiency of a house or flat, the so-called "Energy-saving loan" that is part of the #BezSmogu campaign. The product was created in cooperation with EBRD as part of the Polish Residential Energy Efficiency Financing Facility (PolREFF). The new product supports investments in technologies that help save energy in homes and reduce bills while at the same time caring for the environment.
Euro Bank S.A. plans to gradually increase the number of smog sensors.

Since 2011, Euro Bank S.A. also encourages employees to use bicycles. As part of the eurobike initiative, the Bank provides a bicycle parking, showers, lockers, a bike control station at the Head Office, and promotes the initiative through competitions and various events during which, for example, one can mark their bicycle.

**Values and ethical principles of the Bank's operations**

The Bank implements and applies high standards of work. The Bank adopted a code of conduct defining the values and commitments, as well as guidelines for the conduct of persons and teams.

Through all our activities, we intend to build lasting and trust-based relationships with our stakeholders.

Euro Bank S.A. complies with the "SG Code of Conduct" adopted by the Societe Generale Group. As a Bank, we have values, principles and responsibilities that guide us in our daily activities. Taking care that every one of us acted honestly on a daily basis is of fundamental importance. Through ethical conduct, responsible decisions and compliance with our commitments, we act in the best interest of the Bank, the Group, employees, Customers and shareholders.

In addition, the Bank adopted the "Code of Banking Ethics" of the Polish Bank Association. This means accepting the commitment to apply the highest standards in business operations, so as by our actions to create an image of a public trust institution in the consciousness of Customers.

Both of these documents oblige the Bank to apply the highest standards, respect for human rights and care for the natural environment. By adopting these principles, the Bank maintains due diligence in its day-to-day operations, performance of tasks and achieving its objectives. Furthermore, in order to fully meet the requirements and act in accordance with the adopted values, the Bank has created a whole system of internal regulations, procedures and other documents that ensures due diligence in everyday work.

The Bank's sustainable development is based on the following values:

**Team Spirit**

In our rapidly changing world, Customers seek a bank that is a responsible, trustworthy and flexible partner. We can meet their expectations by working as a team, using the experience of each of us and basing on the diversity of our skills and knowledge.

**Innovation**

We want to continually improve the service offered to our Customers thanks to cooperation, so that we can adapt our solutions, practices and relationships to future applications, using in particular technological innovations. Acting in entrepreneurial spirit, we change our ways of work and promote the spirit of sharing, experimenting and unconventional thinking. We learn both on our successes and on our failures.

**Responsibility**

As bankers, we contribute to the sustainable social and economic development and environmental protection of the regions in which we operate. We want to help our Customers in the implementation of their ventures, while paying attention to all types of risks. Our responsibility and ethical standards mean that we meet our Customers' requirements quickly and protect the long-term interests of all our partners, while complying with all the rules governing our business. Our responsibility is also reflected in accepting the consequences of our actions and decisions, as well as expressing opinions in a transparent way. Responsibility also means for us to pay the same attention to the results achieved and to the ways of achieving them.

**Commitment**

Our commitment stems from the desire to attain long-term customer satisfaction and the pride from our Company. Every day we strive to make the world a better place, contributing both to the successes of our Customers and to the success of our own projects.

We encourage all employees to get involved and strive to achieve professional goals. Both inside the Bank and in relations with external entities, we maintain relationships based on trust and mutual respect.

The above values are the foundation of our leadership model. It is this model that defines the behaviors and abilities expected of each of us, regardless of whether we are directors, managers or regular employees. Each of us bears individual responsibility for accepting these attitudes and using these competences on a daily basis. All our activities must be carried out in accordance with the "Code of Conduct" as well as any internal instructions.

**Respect for human rights and the environment**

Compliance with human and socio-economic rights and respect for the natural environment is our overriding principle. We want the Bank to develop with respect to fundamental human rights, social rights and respect for the natural environment. We act in accordance with the objectives of international initiatives that we have decided to support, and we also cooperate with their initiators. These include: UN Global Compact, Statement of Commitment by Financial Institutions on Sustainable Development (United Nations Environment Program), Equator Principles, Wolfsberg Anti-Money Laundering.

We develop our business activity, while respecting society and the natural environment. Together with our partners, we use energy and natural resources sparingly, and when we make decisions on financing and investments as well as the functioning of our enterprises, we take into account environmental and social factors.

**Compliance with legal regulations, regulatory requirements and other standards**

Wherever we are present, we comply with applicable laws, regulatory requirements and agreements, as well as with international obligations and agreements that we have ratified or supported. Together, we conduct our business by adhering to professional and ethical standards and principles. We ensure transparency and reliability of information provided to our Customers, the financial community, investors, supervisory authorities and the public as a whole. Our business, organizational structure and procedures are in line with the ethical principles and the principles set out by the Company, as well as our "Tax Code of Conduct". Our internal control mechanisms give us confidence that these goals are achieved. We are actively involved in combating money laundering and financing of terrorism as well as corruption, cooperating with relevant authorities in this area. To achieve these goals, we have developed relevant procedures, among others, the Procedure on counteracting money laundering and terrorist financing in Euro Bank S.A. and the Anti-Corruption procedure in Euro Bank S.A.

**Promoting diversity and respecting individual privacy**

In accordance with the French Diversity Charter, adopted by the Societe Generale Group in 2004, and in accordance with Polish law, we promote diversity and refrain from practicing discrimination in any form with respect to employees and candidates for work. We comply with the rules and procedures regarding freedom of association and working conditions. We respect the privacy of people, regardless of whether they are Customers, partners or employees. We request and use only information useful for acting in the interests of our Customers and partners, improving the quality of services we provide, compliance with statutory obligations or managing our company. We adhere to the principle of political neutrality and refrain from supporting any political organizations or activities by donations or subsidies, even if allowed by local legislation. We respect the commitments of those of our employees who, as citizens, want to participate in public life.

**Market integrity**

Each of us must act responsibly and respect the rules of market integrity. The conduct of each of us is strictly in line with the standards and rules governing transactions on financial markets due to the fact that we refrain from any behavior or actions that could distort competition or change the realities of functioning or the level of transparency in relations with other market participants and supervisors.

We all abide by national and international market abuse rules, and we are constantly vigilant to protect market integrity. In particular, it is strictly forbidden to take actions such as: violation of regulations regarding the use of confidential information in trading in securities, disclosure of confidential information in an unlawful manner, dissemination of information constituting false or misleading signals for markets, as well as manipulation of prices.

**Prevention of conflicts of interest**

Each of us refrains from maintaining personal relationships with our Customers, partners and suppliers that could expose us to unreliable performance of our duties or put us in a situation of conflict of interest. We report any cases of potential conflicts of interest to our direct superiors and the Head of Compliance.

We avoid circumstances in which our own interests or interests of people in our nearest circle would be contrary to the interest of the Bank. In the event of any doubts about a transaction or situation, or whether we follow the "Code of Conduct" or any applicable instructions, we seek the advice of our direct supervisors and the Head of Compliance.

Each of us should avoid cooperation (or holding shares) with companies, suppliers and clients who provide competitive services without the prior written permission of the direct superior and the Head of Compliance. Where a peer employee can be considered as a representative of the Bank, he/she refrains from including the Bank or any of its entities into public activity or public duties performed outside the Bank.

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|---|---|---|
| President of the Management Board<br>Alexis Lacroix | Vice-President of the Management Board<br>Marcin Ciszewski | Vice-President of the Management Board<br>Radosław Księżopolski |

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|---|---|
| Vice-President of the Management Board | Vice-President of the Management Board |
| Mariusz Kaczmarek | Wojciech Humiński |